



THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS

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MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

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Subject: Macro, Money, Credit and Investment

Despite complaints about high interest rates and volatile exchange rates, we achieved most Summit objectives in the macro, money, credit and investment areas.

1. The Declaration indicated growth and employment must be increased but is more attainable if we contain inflation.

Advantages to U.S.

Renews pledge to avoid short-run reflationary policies which have caused serious inflation in the past. Present French policies appear to be in conflict with pledge.

2. The Declaration also stated that in order to achieve lower real interest rates, we must pursue prudent monetary policies and achieve greater control of budgetary deficits.

Advantages to U.S.

Avoids pressures to revert to an easier money policy while keeping pressure on our efforts to achieve budgetary control.

3. Included in the Declaration was the Statement of International Monetary Understanding which was a direct result of a U.S. initiative.

Advantages to U.S.

- a. Focuses international attention on convergence of basic policies needed for achieving low interest rates and exchange rate stability.
- b. Reduces pressure for attacking symptoms -- intervention in money and exchange markets.

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- c. Provides U.S. a forum for critically evaluating G-5 policies.
- d. Responsive to European concerns about inadequate cooperation.

4. There was agreement among Summit partners to initiate a study of exchange rate intervention as the U.S. proposed.

Advantages to U.S.

- a. Responsive to European concerns about exchange rate volatility without committing U.S. to intervention.
- b. Provides learning experience for dedicated interveners.

5. Summit partners agreed to handle cautiously financial relations with the USSR and other Eastern European countries, in such a way as to ensure that they are conducted on a sound economic basis, including also the need for commercial prudence in limiting export credits.

Advantages to U.S.

For first time achieved a "limiting" clause with respect to credit granted USSR and other Eastern European countries.

Disadvantages to U.S.

- a. Subject to interpretation and not precise.
- b. Have not yet achieved agreement on OECD consensus which raises rates and reclassifies many countries, including USSR and many newly industrialized countries, in limiting official export credits.

6. We achieved a strong statement endorsing the encouragement of private capital flows, including "international arrangements for private investments."

Advantages to U.S.

Provides impetus to our present efforts in OECD and planned efforts at the GATT Ministerial to ultimately achieve internationally agreed ground rules for the treatment of private investments.